

DAVID M. MUNSON, INC.
1600 Pacific Avenue, Suite 3020
DALLAS, TEXAS 75201-3591



Tel: (214) 954-0260
Fax: (214) 954-0867

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Minerals Management Service
Royalty Management Program
Rules and Procedure Staff
P.O. Box 25165
Mail Stop 3101
Denver, Colorado 80225-0165

Re: Possible Crude Oil Valuation Procedure Changes

Dear Staff Members:

It has come to our attention that the MMS is considering possible changes in the way MMS determines the value of crude oil royalty it receives. While your concern regarding valuation for royalties from non-arms length sales may be appropriate, it is doubtful that another methodology could be devised that wouldn't be overly burdensome to comply with and administer.

For royalty valuation from arms length crude oil sales, it would be highly inappropriate to use any method other than actual contractual terms (which may involve postings) between the purchaser to the lessee. To use another method would unfairly penalize a lessee by forcing him to pay royalty on a higher basis than he received. Such a penalty is particularly unfair when one understands that in an arms length sale the interests of the lessee and the royalty owner are entirely parallel. In addition to being highly unfair, to change to any other valuation method would certainly increase the burden of lessee royalty reporting and MMS royalty administration.

It is our recommendation that the MMS continue to use its current royalty evaluation method.

Sincerely yours,

David M. Munson, President